

**ONSTED COMMUNITY SCHOOLS
ONSTED, MICHIGAN**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

**WITH
INDEPENDENT AUDITORS' REPORT**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Onsted Community School District (the District), a K-12 school district located in Lenawee County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the District administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2007.

This review must contain information about the District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the District's revenues by program for the General Fund, Debt Service Fund, Capital Projects Fund, and Special Revenue Fund.

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

- The government-wide statements, the **Statement of Net Assets** and the **Statement of Activities**, provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

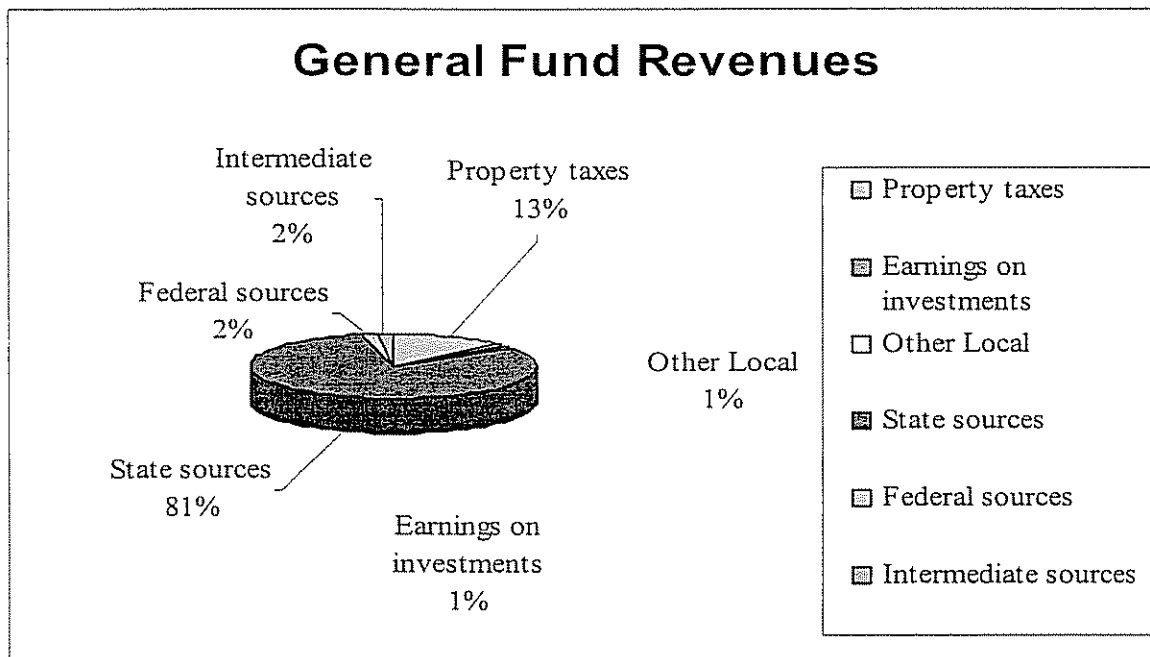
Fund Financial Statements

For the most part, the fund financial statements are comparable to prior years' financial statements. The fund levels statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Resources are considered currently available if received within 60 days of the fiscal year end. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

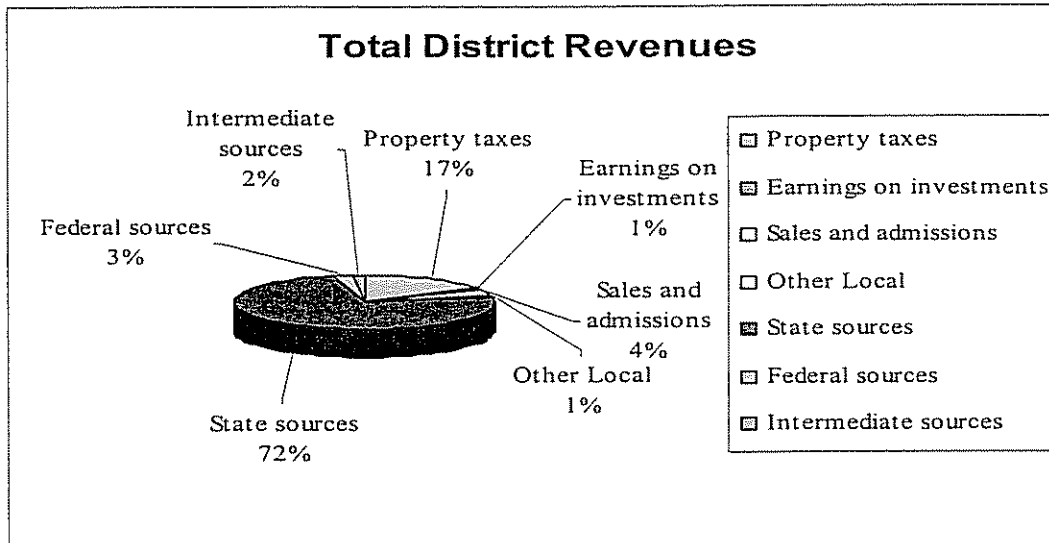
In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue, Debt Service and Capital Projects Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

The graph below depicts how the stability and health of the General Fund revenues are dependent upon the ability of the state to fund the District's budgeted per-pupil foundation allowance of \$6,875 per student:



The graph below depicts the sources of revenue for all governmental funds of the District (including restricted), and, again, how much the District relies upon the health of the State's economy and ability to fund the budgeted per-pupil foundation allowance:



Government-wide Financial Statements

The government-wide (district wide) financial statements, required by GASB 34, are calculated using full accrual accounting and more closely represent those presented by business and industry. All of the District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the District.

The two district wide statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating.
- To assess the District's overall health, consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district wide financial statements, the District has one category of activity:

Governmental activities are regular and special education, transportation, and administration as shown in greater detail in the financial statements. Property taxes and state formula aid provide the most funding for these activities.

Summary of Net Assets

Onsted Community Schools

Statement of Net Assets

June 30, 2007

<u>ASSETS</u>	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$1,163,183	\$992,360
Investments	2,640,354	785,804
Accounts Receivable	52,191	44,042
Taxes Receivable	760	6,546
Due from other governmental units	2,013,425	2,126,836
Inventory/interest receivable/prepaid expenses	21,035	16,354
Total current assets	5,890,948	3,971,942
NONCURRENT ASSETS:		
Capital assets	23,260,927	23,309,104
Less: Accumulated depreciation	(7,757,908)	(7,379,049)
Capital assets-net of accumulated depreciation	15,503,019	15,930,055
Accrued interest receivable on defeased bonds	508,918	540,726
Prepaid bond costs	100,646	107,356
Total non current assets	16,112,583	16,578,137
Total assets	\$22,003,531	\$20,550,079
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	199,342	195,439
Accrued salaries and related items	1,011,159	977,038
Loan payable	950,000	
Interest payable	95,837	69,213
Bank overdraft		12,619
Unearned revenue	108,298	72,773
Current portion of long term obligations	480,000	435,190
Current portion of compensated absences	46,949	49,051
Total current liabilities	2,891,585	1,811,323
NONCURRENT LIABILITIES:		
Noncurrent portion of long term obligations	9,180,450	9,455,260
Add: Unearned premium on bonds net of accumulated amortization	82,083	87,946
Compensated absences	140,788	139,397
Total non current liabilities	9,403,321	9,682,603
Total liabilities	12,294,906	11,493,926
NET ASSETS:		
Invested in capital assets, net of related debt	5,760,486	5,951,659
Restricted for Debt Service	328,503	333,940
Restricted for Capital Projects	655,573	79,211
Unrestricted	2,964,063	2,691,343
Total net assets	9,708,625	9,056,153
Total Liabilities & Net Assets	\$22,003,531	\$20,550,079

Analysis of Financial Position

During the fiscal year ended June 30, 2007, the District's net assets increased by \$652,472. This compares to a \$212,978 decrease in net assets during the fiscal year ended June 30, 2006. Significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2007, \$528,569 was recorded for depreciation expense. This compares to \$535,852 for the year ended June 30, 2006.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2007, \$109,683 of expenditures were capitalized and recorded as assets of the District. This compares to capitalized expenditures of \$54,043 for the fiscal year ended June 30, 2006. These additions to the District's capital assets will be depreciated over their useful life.

The net effect of the new capital assets, the disposal of unusable capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$427,036 for the fiscal year ended June 30, 2007.

3. Early Retirement Incentive for teachers

In the spring of 2006 an early retirement incentive plan was offered to teachers in the hopes of reducing salary and benefit costs in future years. These savings occur by replacing teachers at the top of the salary schedule with teachers at the lower end.

Nine teachers took the buyout at a cost of \$25,000 per teacher in 2005-06 and \$15,000 additional per teacher in 2006-07. This cost totaled \$135,000.00 in 2006-07.

Results of Operations

For the fiscal year ended June 30, 2007, the results of operations, on a District-wide basis, were:

	2007	2006
General revenues		
Property taxes	\$ 2,673,087	\$ 2,681,942
Earnings on investments	89,783	60,560
State sources	11,461,655	11,031,320
Other	333,696	347,428
Total general revenues	\$14,558,221	\$14,121,250
Program revenues		
Charges for services	620,037	601,916
Operating grants	832,080	646,881
Total program revenues	\$ 1,452,117	\$ 1,248,797
Total revenues	\$16,010,338	\$15,370,047
Expenses		
Instruction	\$ 8,802,416	\$ 8,918,259
Support services	4,366,472	4,455,604
Community services	82,658	87,720
Food services	653,127	627,092
Athletics	511,853	490,478
Interest on long term debt including amortization of discount, premium and bond issuance costs	412,771	468,020
Unallocated depreciation	528,569	535,852
Total expenses	\$15,357,866	\$15,583,025
Change in net assets	652,472	(212,978)

Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levies 18 mills of property taxes for operations on non-homestead properties, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 31. In May 2006 an election was passed for 18 mills so no Headlee rollback was in effect for the fiscal year ending June 30, 2007. Property tax revenues for the 2006-07 fiscal year were \$1,842,120 for general purposes.

2. State sources

The State of Michigan provides a \$7,085 per pupil foundation allowance that provides a substantial portion of the District's revenue. In addition, the District received various grants from the state. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. State aid payments are made with the first payment of the school year beginning in October, and the last payment being made in August. Therefore, at the end of the District's fiscal year, there was an adjustment made that includes two months of state aid payments that was not received in the fiscal year in which the related expenses occurred.

3. Student Enrollment

The District's blended count, which is used to compute the State Aid allowance, consists of 75% of the fall student count and 25% of the previous spring's student count. For the 2006-07 school year, the District blended count was 1865.17.

4. Salaries and benefits

A significant portion of the District's expenses are related to compensation of employees. Due to contracts in place with teachers, support staff and administration, those costs increased for step changes and percentage increases in salary. Health insurance costs increased for teachers, administrators and for support staff, even though some of that cost was offset by insurance caps built into the contracts. Retirement costs increased from 16.34% of payroll to 17.74% of payroll. FICA costs and worker compensation costs remained stable.

5. Instructional purchases

Instructional purchases including textbooks and supplemental learning materials, supplies, and purchased services comprise a substantial part of each year's budgetary expenditures.

6. Operations and maintenance

Operation and maintenance of our school buildings and vehicles also require a substantial portion of the District's budget.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget. These budget amendments fall into two categories:

- Changes made in June 2007 to reflect increased revenues and expenses.
- Increases in appropriations to prevent budget overruns.

Although the District's final budget for the general fund anticipated that there would be a increase to fund balance of \$200,000, the actual results of the year show an increase of \$285,404.

Analysis of differences between original and final budgeted amounts and between actual and budgeted amounts

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District amends its budget during the school year. In fact, all Michigan school districts must complete a second full budget after the state's official student membership count date (the fourth Wednesday in September), because only then are they knowledgeable of their Foundation Grant's income level. These revisions are made in order to deal with unexpected changes in revenues and expenditures. The final amendment is made just before year-end. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report. The following analysis describes the reasons for changes in the budget during the year.

Revenues: Original estimated budgets for revenues were \$13,842,919 versus the final budget of \$14,323,450. Major components of revenue and their original versus final projections are discussed below.

- Property tax revenues increased due to property value changes.
- State Aid was increased due to a higher student count than predicted.
- Federal revenues were increased due to revised grant amounts for Title I, Vocational Education, etc.

- Intermediate revenues were increased due to Special Education revenue being higher than anticipated.

Expenses: The original budget for expenditures was \$13,642,919 versus the final budget figure of \$14,123,450. The main reason for the increase in expenditures was the early retirement incentive cost, salary and benefit costs increased due to contract negotiations completed after the original budget was set, matching grants expenditures to revenues, and increased costs for unemployment benefits.

Final budget versus actual figures

Even though the final budget is adopted at the end of June, final revenue and expense amounts are not complete until the audit is completed in August. Accounts payable and receivable must be recorded at that time and may be different from the amounts projected in June. As a matter of fact, in the Added Needs function, actual costs exceeded the final budget by \$7,645 due to an invoice for a special education program not being received from Lenawee Intermediate School District until late July of 2007.

Capital Asset and Debt Administration

Capital Assets -

At June 30, 2007, the District had \$23,106,155 invested in a broad range of capital assets, including land, buildings, vehicles and equipment. Additions of \$109,683 resulted from an electronic sign built using donations and the purchase of an automated time clock system and a school bus. Decreases resulted from buses and other vehicles sold as well as unused kitchen equipment and the depreciation of capital assets. More detail is presented in the notes to the financial statements.

Long-Term Debt -

At June 30, 2007, the District's long-term debt obligations included \$60,450 in Durant bonds, \$9,600,000 in bonds payable, and \$187,737 in accumulated vested benefits including sick pay leave. More detail is presented in the notes to the financial statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Retirement costs are expected to decrease in October 2007 from 17.74% to 16.72% of salaries.
- In 2004, the District implemented the No Child Left Behind Act enacted by the federal government in 2003. Several requirements of this act could significantly increase District costs in 2007 and beyond.

- The State of Michigan has not adopted a budget for 2007-08 as of June 30, 2007. The District's budget was adopted with an estimated decrease of \$50 per student from the current \$7,085 foundation grant based on information known at the time, and an estimated blended student count of 1,855. These numbers may change based on the actual student count and the state's final budget, although there could still be an executive order cut later in the year if revenues do not come in as anticipated.
- Because the District has chosen to become a School of Choice district, enrollment may increase as students from neighboring districts take advantage of the choice opportunity. Schools of Choice was created in Section 105 of the State Aid Act and allows pupils who are not residents of Onsted School District but are residents of the Lenawee Intermediate School District the option to apply for enrollment. In the 2005-2006 school year, the Board of Education expanded the choice opportunity to contiguous counties under Section 105(c). There is a possibility that this will generate funds.

Contacting the District's Financial Management

This financial report is designed to provide the district citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Onsted Board of Education Office, Onsted Community School District, 10109 Slee Road, Onsted, Michigan 49265, or call (517) 467 - 2174.

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Onsted Community Schools
Onsted, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Onsted Community Schools, as of and for the year ended June 30, 2007, which collectively comprise Onsted Community Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Onsted Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Onsted Community Schools, as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2007 on our consideration of the Onsted Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

To the Board of Education
Onsted Community Schools
Onsted, Michigan

The management's discussion and analysis and budgetary comparison information on pages *i* through *x* and pages 26 through 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of the inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Onsted Community Schools' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
November 2, 2007

ONSTED COMMUNITY SCHOOLS

STATEMENT OF NET ASSETS

June 30, 2007 and 2006

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
ASSETS:		
Cash and cash equivalents	\$ 1,163,183	\$ 992,360
Investments	2,640,354	785,804
Accounts receivable	52,191	44,042
Taxes receivable	760	6,546
Due from other governmental units	2,013,425	2,126,836
Interest receivable	1,069	
Inventory	14,695	16,354
Prepaid expenses	<u>5,271</u>	<u></u>
NONCURRENT ASSETS:		
Capital assets	23,260,927	23,309,104
Less: Accumulated depreciation	(7,757,908)	(7,379,049)
Accrued interest receivable on defeased bonds	508,918	540,726
Prepaid bond costs	<u>100,646</u>	<u>107,356</u>
TOTAL ASSETS	<u>\$ 22,003,531</u>	<u>\$ 20,550,079</u>
LIABILITIES:		
Accounts payable and accrued expenses	\$ 199,342	\$ 195,439
Accrued salaries and related items	1,011,159	977,038
Loan payable	950,000	
Interest payable	95,837	69,213
Bank overdraft		12,619
Unearned revenue	108,298	72,773
Current portion of long term obligations	480,000	435,190
Current portion of compensated absences	<u>46,949</u>	<u>49,051</u>
NONCURRENT LIABILITIES:		
Noncurrent portion of long term obligations	9,180,450	9,455,260
Add: Unearned premium on bonds, net of accumulated amortization	82,083	87,946
Compensated absences	<u>140,788</u>	<u>139,397</u>
TOTAL LIABILITIES	<u>12,294,906</u>	<u>11,493,926</u>
NET ASSETS:		
Invested in capital assets, net of related debt	5,760,486	5,951,659
Restricted for:		
Debt Service	328,503	333,940
Capital Projects	655,573	79,211
Unrestricted	<u>2,964,063</u>	<u>2,691,343</u>
TOTAL NET ASSETS	<u>\$ 9,708,625</u>	<u>\$ 9,056,153</u>

ONSTED COMMUNITY SCHOOLS

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Totals Governmental Activities	
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets	
				2007	2006
GOVERNMENTAL ACTIVITIES:					
Instruction	\$ 8,802,416	\$ 54,205	\$ 486,991	\$ (8,261,220)	\$ (8,532,029)
Support services	4,366,472	16,651	24,241	(4,325,580)	(4,413,164)
Food services	653,127	426,219	222,456	(4,452)	(11,766)
Community services	82,658	52,048	13,302	(17,308)	(3,568)
Athletics	511,853	70,914	85,090	(355,849)	(369,829)
Interest on long term debt including amortization of discount, premium and bond issuance costs	412,771			(412,771)	(468,020)
Unallocated depreciation	<u>528,569</u>			<u>(528,569)</u>	<u>(535,852)</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 15,357,866</u>	<u>\$ 620,037</u>	<u>\$ 832,080</u>	<u>\$ (13,905,749)</u>	<u>\$ (14,334,228)</u>
GENERAL REVENUES:					
Property taxes, levied for general purposes				1,842,120	1,758,273
Property taxes, levied for debt service				830,967	923,669
Investment earnings				89,783	60,560
State sources				11,461,655	11,031,320
Intermediate sources				288,804	244,009
Loss on disposal of asset				(8,150)	(3,890)
Other				<u>53,042</u>	<u>107,309</u>
TOTAL GENERAL REVENUES				<u>14,558,221</u>	<u>14,121,250</u>
CHANGE IN NET ASSETS				652,472	(212,978)
Net assets, beginning of year				<u>9,056,153</u>	<u>9,269,131</u>
Net assets, end of year				<u>\$ 9,708,625</u>	<u>\$ 9,056,153</u>

ONSTED COMMUNITY SCHOOLS

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2007
With Comparative Totals for June 30, 2006

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Totals Governmental Funds 2007</u>	<u>2006</u>
ASSETS:					
Cash and cash equivalents	\$ 146,102	\$ 655,573	\$ 361,508	\$1,163,183	\$ 992,360
Investments	2,606,707		33,647	2,640,354	785,804
Accounts receivable	10,182			10,182	21,652
Taxes receivable	760			760	6,546
Due from other governmental units	2,004,887		8,538	2,013,425	2,126,836
Due from other funds			72,977	72,977	15,100
Interest receivable	1,069			1,069	
Inventory			14,695	14,695	16,354
Prepaid expenditures	<u>5,271</u>			<u>5,271</u>	
TOTAL ASSETS	<u>\$4,774,978</u>	<u>\$ 655,573</u>	<u>\$ 491,365</u>	<u>\$5,921,916</u>	<u>\$3,964,652</u>
LIABILITIES:					
Accounts payable and accrued expenditures	\$ 197,801	\$	\$ 1,541	\$ 199,342	\$ 195,439
Accrued salaries and related items	1,011,159			1,011,159	977,038
Loan payable	950,000			950,000	
Interest payable	29,978			29,978	
Due to other funds	518		72,459	72,977	15,100
Bank overdraft					12,619
Unearned revenue	<u>79,263</u>		<u>29,035</u>	<u>108,298</u>	<u>72,773</u>
TOTAL LIABILITIES	<u>2,268,719</u>	<u>-</u>	<u>103,035</u>	<u>2,371,754</u>	<u>1,272,969</u>
FUND BALANCES:					
Reserved for:					
Taxes receivable	760			760	6,546
Inventory			14,695	14,695	16,354
School lunch program			38,347	38,347	32,029
Community services			4,990	4,990	7,556
School store			1,607	1,607	1,550
Debt service			328,503	328,503	333,940
Capital projects		655,573		655,573	79,211
Unreserved reported in:					
Special Revenue Funds			188	188	188
General Fund	<u>2,505,499</u>			<u>2,505,499</u>	<u>2,214,309</u>
TOTAL FUND BALANCES	<u>2,506,259</u>	<u>655,573</u>	<u>388,330</u>	<u>3,550,162</u>	<u>2,691,683</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$4,774,978</u>	<u>\$ 655,573</u>	<u>\$ 491,365</u>	<u>\$5,921,916</u>	<u>\$3,964,652</u>

ONSTED COMMUNITY SCHOOLS

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
TOTAL GOVERNMENTAL FUND BALANCES	\$ 3,550,162	\$ 2,691,683
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in the governmental activities are not financial resources and are not reported in the funds:		
The cost of the capital asset is	23,260,927	23,309,104
The accumulated depreciation is	<u>(7,757,908)</u>	<u>(7,379,049)</u>
	15,503,019	15,930,055
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Special education revenue from the Lenawee Intermediate School District	42,009	22,390
Accrued interest receivable on defeased bonds	508,918	540,726
Long term liabilities are not due and payable in the current period and are not reported in the funds:		
Bonds payable	(9,660,450)	(9,890,450)
Unearned discount on bonds net of amortization		
Unearned premium on bonds net of amortization	(82,083)	(87,946)
Unearned bond issuance costs	100,646	107,356
Compensated absences	(187,737)	(188,448)
Accrued interest is not included as a liability in governmental funds. It is recorded when paid.	<u>(65,859)</u>	<u>(69,213)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 9,708,625</u>	<u>\$ 9,056,153</u>

ONSTED COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

	General Fund	Capital Projects	Other Nonmajor Governmental Funds	Totals Governmental Funds 2007	2006
REVENUES:					
Local sources:					
Property taxes	\$ 1,842,120	\$	\$ 830,967	\$ 2,673,087	\$ 2,681,942
Investment earnings	109,722	1,589	10,280	121,591	60,560
Sales, admissions and fees	70,856		549,181	620,037	548,649
Other	<u>104,716</u>	<u>10,000</u>	<u>114,894</u>	<u>229,610</u>	<u>254,972</u>
TOTAL LOCAL SOURCES	2,127,414	11,589	1,505,322	3,644,325	3,546,123
State sources	11,665,902		26,241	11,692,143	11,228,283
Federal sources	232,560		184,615	417,175	355,522
Intermediate sources	<u>269,185</u>			<u>269,185</u>	<u>257,435</u>
TOTAL REVENUES	<u>14,295,061</u>	<u>11,589</u>	<u>1,716,178</u>	<u>16,022,828</u>	<u>15,387,363</u>
EXPENDITURES:					
Current:					
Instruction	8,795,416			8,795,416	8,932,741
Support services	4,327,196			4,327,196	4,346,998
Food service activities			649,523	649,523	629,799
Community service activities	11,189		71,469	82,658	87,720
Bookstore activities			6,301	6,301	15,229
Athletic activities			509,798	509,798	491,766
Other		45,480		45,480	70,305
Capital outlay	46,883	62,800		109,683	54,043
Debt Service:					
Interest			415,278	415,278	436,636
Other			<u>865</u>	<u>865</u>	<u>12,370</u>
TOTAL EXPENDITURES	<u>13,180,684</u>	<u>108,280</u>	<u>1,653,234</u>	<u>14,942,198</u>	<u>15,077,607</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,114,377</u>	<u>(96,691)</u>	<u>62,944</u>	<u>1,080,630</u>	<u>309,756</u>
OTHER FINANCING SOURCES (USES):					
Sale of school property	7,849			7,849	
Proceeds from bond issuance		200,000		200,000	
Redemption of principal			(430,000)	(430,000)	(414,955)
Transfers in		473,053	363,769	836,822	470,093
Transfers out	<u>(836,822)</u>			<u>(836,822)</u>	<u>(470,093)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(828,973)</u>	<u>673,053</u>	<u>(66,231)</u>	<u>(222,151)</u>	<u>(414,955)</u>
CHANGE IN FUND BALANCES	285,404	576,362	(3,287)	858,479	(105,199)
FUND BALANCES:					
Beginning of year	<u>2,220,855</u>	<u>79,211</u>	<u>391,617</u>	<u>2,691,683</u>	<u>2,796,882</u>
End of year	<u>\$ 2,506,259</u>	<u>\$ 655,573</u>	<u>\$ 388,330</u>	<u>\$ 3,550,162</u>	<u>\$ 2,691,683</u>

ONSTED COMMUNITY SCHOOLS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CHANGE IN FUND BALANCES TOTAL GOVERNMENTAL FUNDS	\$ 858,479	\$ (105,199)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures in the Statement of Revenues, Expenditures, and Changes in Fund Balances. These costs are allocated over their estimated useful lives as depreciation on the Statement of Activities:		
Depreciation expense	(528,569)	(535,852)
Capital outlay	109,683	54,043
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.		
Loss on disposal of capital asset	(8,150)	(3,890)
Accrued interest on bonds is recorded in the Statement of Activities when incurred; it is not recorded in the governmental funds until it is paid.		
Accrued interest payable beginning of year	69,213	72,400
Accrued interest payable end of year	(65,859)	(69,213)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment on long-term debt and related items.	197,345	380,384
Revenues and expenditures of prior periods are recognized in the governmental funds, but must be eliminated on the Statement of Activities.		
Revenues related to prior periods		
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the governmental funds.		
Special education revenue from the Lenawee Intermediate School District – end of year	42,009	22,390
Special education revenue from the Lenawee Intermediate School District – beginning of year	(22,390)	(35,816)
Compensated absences are reported on the accrual method in the Statement of Activities, and recorded as an expenditure when financial resources are used in the governmental funds:		
Accrued compensated absences – beginning of the year	188,448	196,223
Accrued compensated absences – end of year	<u>(187,737)</u>	<u>(188,448)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 652,472</u>	<u>\$ (212,978)</u>

ONSTED COMMUNITY SCHOOLS
STATEMENTS OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2007 and 2006

	<u>Agency Fund</u>	
	<u>2007</u>	<u>2006</u>
ASSETS:		
Cash and investments	\$ <u>65,359</u>	\$ <u>93,299</u>
 TOTAL ASSETS	\$ <u>65,359</u>	\$ <u>93,299</u>
 LIABILITIES:		
Due to student groups	\$ <u>65,359</u>	\$ <u>93,299</u>
 TOTAL LIABILITIES	\$ <u>65,359</u>	\$ <u>93,299</u>

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Onsted Community Schools (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government*. Significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The District has implemented the provisions of Statement No. 34 effective July 1, 2002.

A. Reporting Entity

The District is governed by the Board of Education (the "Board") of Onsted Community Schools, which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-Wide And Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. The government-wide financial statements categorize primary activities as either governmental or business-type. All of the District's activities are classified as governmental activities. Amounts reported in the funds as interfund receivables and payables are eliminated in the governmental activities column of the statement of net assets. Amounts reported in the funds as receivable from or payable to fiduciary funds are included in the statement of net assets as receivable from or payable to external parties, rather than as internal balances. Therefore, all internal balances are eliminated in the total primary government column.

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide And Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

This government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits, and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income, and other revenues).

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide And Fund Financial Statements (Continued)

The *Capital Projects Fund* accounts for the receipt of monies from the General Fund to purchase assets or to complete construction of major capital projects.

Other Non-major Funds

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trust or major capital projects). The District accounts for its food service, athletic, community services, and bookstore activities in the Special Revenue Funds.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust Funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary Funds are not included in the government-wide statements.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency Funds are accounted for using the accrual basis of accounting.

This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis Of Accounting And Basis Of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis Of Accounting And Basis Of Presentation (Continued)

fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The District has adopted a deposit and investment policy in accordance with GASB Statement No. 40.

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of assessed valuation.

<u>Fund</u>	<u>Mills</u>
General Fund Non-homestead	18.00
Debt Service Funds – Homestead and Non-homestead	2.1

3. Inventories and Prepaid Expenditures

Inventories are valued at cost (first-in, first-out). Inventories in the Special Revenue Funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

5. Fund Balances

Fund balances on the Governmental Fund Balance Sheet are classified as either reserved or unreserved. The term reserved indicates that a portion of the fund balance is not appropriable for expenditure or is legally segregated for a specific future use. The reserve for Taxes receivable represents the income from property taxes recognized, but not yet received at the fiscal year ended June 30, 2007. The reserve for Inventory is the portion of fund balance represented by inventory not available for appropriation and expenditure at June 30, 2007. The reserve for the School Store and Community Service represents the portion of fund balance segregated for the specific use of the School Store Fund and the Community Service Fund, respectively, in future years. The reserve for the School Lunch Program represents the portion of fund balance that is legally segregated for expenditure within the School Lunch Fund. The reserve for Debt Service and reserve for Capital Projects are legally segregated for expenditure within the Debt Service Fund and Capital Projects Funds, respectively.

6. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General, Special Revenue, and Debt Service Funds.

The District maintains a formalized encumbrance system. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the General Fund. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent and Business Manager are authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriation, the last one approved prior to June 30, 2007. The District does not consider these amendments to be significant.
7. On the General Fund Budgetary Comparison Schedule, one function exceeded budget. There were no functions exceeding budget on the Debt Fund and Capital Projects Fund Budgetary Comparison Schedule. Total expenditures did not exceed the amount appropriated in any fund.

	Final Budget	Actual	Variance
Added needs	\$ 1,421,826	\$ 1,429,471	\$ (7,645)

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned to the District. The District does not have a deposit policy for custodial credit risk. As of June 30, 2007, \$788,250 of the District's bank balance of \$888,250 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$ 788,250</u>
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ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments

The District's investments are deposits in the Michigan Liquid Asset Fund (MILAF) and MILAF time deposits in the amount of \$2,640,354. MILAF is a local government investment pool. MILAF may only invest in instruments as authorized by Sections 622, 1221 and 1223 of the Michigan school code.

Credit Risk: The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a credit risk policy. The MILAF investment is rated AAAM by Standard & Poor's Ratings Services.

Interest Rate Risk: The risk that changes in the interest rates will adversely affect the fair value of an investment. The District does not have an interest rate risk policy. The weighted average maturity of the MILAF portfolio at September 30, 2006 is 56 days. The weighted average maturity of the MILAF time deposits is 52 days.

NOTE 4. CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
Assets not being depreciated – land	\$ 154,772	\$ -	\$ -	\$ 154,772
Other capital assets:				
Land improvements	133,900			133,900
Buildings and additions	21,077,107			21,077,107
Equipment	496,080	46,883	24,000	518,963
Vehicles other than buses	40,899			40,899
Buses	<u>1,406,346</u>	<u>62,800</u>	<u>133,860</u>	<u>1,335,286</u>
Depreciable capital assets	23,154,332	109,683	157,860	23,106,155
Less: Accumulated depreciation	<u>7,379,049</u>	<u>528,569</u>	<u>149,710</u>	<u>7,757,908</u>
Net depreciable capital assets	<u>15,775,283</u>	<u>(418,886)</u>	<u>8,150</u>	<u>15,348,247</u>
Net capital assets	<u>\$ 15,930,055</u>	<u>\$ (418,886)</u>	<u>\$ 8,150</u>	<u>\$ 15,503,019</u>

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 4. CAPITAL ASSETS (Continued)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and equipment	5 – 20 years

Depreciation for the fiscal year ended June 30, 2007 and 2006 amounted to \$528,569, and \$535,852, respectively. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5. LONG-TERM DEBT

The School District has issued a general obligation bond issue, dated August 1, 1997, for the purpose of erecting, furnishing, and equipping additions to and partially remodeling, refurbishing, and re-equipping existing school buildings, to include acquiring and installing educational technology improvements, and developing and improving the site. The bond issue for \$11,575,000 has an interest rate ranging from 5.0% to 5.25%. A portion of the bonds are callable, those with maturities on or before 2008 and \$300,000 of those maturing in 2009. The remaining bonds maturing 2009 through 2022, totaling \$8,445,000 were refunded as described below. These bonds are held by the escrow agent, The Bank of New York Trust Company, N.A., and are not an obligation of the District.

<u>Year Ended</u> <u>June 30</u>	<u>Interest</u> <u>Rate</u>	<u>Principal</u> <u>Due May 1</u>	<u>Interest</u> <u>Due November 1</u>	<u>Interest</u> <u>Due May 1</u>	<u>Total</u>
2008	5.00%	\$ 395,000	\$ 17,375	\$ 17,375	\$ 429,750
2009	5.00%	<u>300,000</u>	<u>7,500</u>	<u>7,500</u>	<u>315,000</u>
		<u>\$ 695,000</u>	<u>\$ 24,875</u>	<u>\$ 24,875</u>	<u>\$ 744,750</u>

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 5. LONG-TERM DEBT (Continued)

The School District has authorized refunding bonds, dated December 22, 2004, for the purpose of refunding a portion of a prior bond issue of the School District. The bonds were issued for \$8,940,000 at an interest rate ranging from 2.5% to 5.0%. The net present value of the savings is \$369,664 or 4.38% of refunded maturities.

A schedule of the 2006 bond issue is as follows:

<u>Year Ended June 30</u>	<u>Interest Rate</u>	<u>Principal Due May 1</u>	<u>Interest Due November 1</u>	<u>Interest Due May 1</u>	<u>Total</u>
2008	2.75%	\$ 65,000	\$ 180,201	\$ 180,201	\$ 425,402
2009	3.00%	185,000	179,308	179,308	543,616
2010	3.50%	500,000	176,533	176,533	853,066
2011	3.50%	520,000	167,783	167,783	855,566
2012	3.50%	540,000	158,683	158,683	857,366
2013	5.00%	560,000	149,233	149,233	858,466
2014	5.00%	590,000	135,233	135,233	860,466
2015	4.00%	620,000	120,483	120,483	860,966
2016	4.00%	645,000	108,083	108,083	861,166
2017	4.10%	670,000	95,183	95,183	860,366
2018	4.15%	700,000	81,448	81,448	862,896
2019	4.20%	730,000	66,923	66,923	863,846
2020	4.25%	760,000	51,593	51,593	863,186
2021	4.35%	790,000	35,443	35,443	860,886
2022	4.40%	<u>830,000</u>	<u>18,260</u>	<u>18,260</u>	<u>866,520</u>
		<u>\$ 8,705,000</u>	<u>\$ 1,724,390</u>	<u>\$ 1,724,390</u>	<u>\$ 12,153,780</u>

The School District has issued a general obligation bond issue, dated June 28, 2007, for the purpose of constructing and equipping a running track and developing and improving the site. The bond issue for \$200,000 has an interest rate of 4.35%

A schedule of the 2007 bonds is as follows:

<u>Year Ended June 30,</u>	<u>Interest Rate</u>	<u>Principal Due May 1</u>	<u>Interest Due November 1</u>	<u>Interest Due May 1</u>	<u>Total</u>
2008	4.35%	\$ 20,000	\$	\$ 7,323	\$ 27,323
2009	4.35%	20,000	3,915	3,915	27,830
2010	4.35%	20,000	3,480	3,480	26,960
2011	4.35%	20,000	3,045	3,045	26,090
2012	4.35%	20,000	2,610	2,610	25,220
2013	4.35%	20,000	2,175	2,175	24,350
2014	4.35%	20,000	1,740	1,740	23,480
2015	4.35%	20,000	1,305	1,305	22,610
2016	4.35%	20,000	870	870	21,740
2017	4.35%	<u>20,000</u>	<u>435</u>	<u>435</u>	<u>20,870</u>
		<u>\$ 200,000</u>	<u>\$ 19,575</u>	<u>\$ 26,898</u>	<u>\$ 246,473</u>

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 5. LONG-TERM DEBT (Continued)

The Durant Bonds, including interest, were issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid Payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. Due to economic conditions in the State of Michigan, payments of State Aid were eliminated and those payments due in years 2003 through 2006 are scheduled to be paid in year 2011. The 1998 limited obligation bond issue of \$102,377 has an interest rate of 4.76% interest.

A schedule of the Durant bonds is as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$	\$	\$
2009	5,697	1,492	7,189
2010	5,969	1,220	7,189
2011	6,253	936	7,189
2012	35,669	12,634	48,303
2013	<u>6,862</u>	<u>327</u>	<u>7,189</u>
	<u>\$ 60,450</u>	<u>\$ 16,609</u>	<u>\$ 77,059</u>

Employees can accumulate compensated absences by not using the number of sick days allotted each year. The maximum number of allowable accumulated sick days varies for employees depending on the capacity in which the District employs him/her. The vested liability for compensated absences is based on a percentage of an employee's daily rate of pay multiplied by the number of days accumulated by employees who have been employed by the District for ten or more years. The current portion represents the estimated amount that will be paid to employees in the next fiscal year.

The following is a schedule of the governmental long term obligations for the District for the year ended June 30, 2007.

	<u>1997</u> <u>General</u> <u>Obligation</u> <u>Bonds</u>	<u>2004</u> <u>Refunding</u> <u>Bonds</u>	<u>2007</u> <u>General</u> <u>Obligation</u> <u>Bonds</u>	<u>Durant</u> <u>Bonds</u>	<u>Compensated</u> <u>Absences</u>	<u>Total</u>
Balance July 1, 2006	\$ 1,070,000	\$ 8,760,000	\$	\$ 60,450	\$ 188,448	\$ 10,078,898
Additions			200,000			200,000
Deletions	<u>(375,000)</u>	<u>(55,000)</u>	<u></u>	<u></u>	<u>(711)</u>	<u>(430,711)</u>
Balance June 30, 2007	695,000	8,705,000	200,000	60,450	187,737	9,848,187
Less:						
Current portion	<u>395,000</u>	<u>65,000</u>	<u>20,000</u>	<u></u>	<u>46,949</u>	<u>526,949</u>
Total due after one year	<u>\$ 300,000</u>	<u>\$ 8,640,000</u>	<u>\$ 180,000</u>	<u>\$ 60,450</u>	<u>\$ 140,788</u>	<u>\$ 9,321,238</u>

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 5. LONG-TERM DEBT (Continued)

Debt Service requirements of governmental activities at June 30, 2007 were as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 480,000	\$ 395,152	\$ 875,152
2009	510,697	375,108	885,805
2010	525,969	354,286	880,255
2011	546,253	336,502	882,755
2012	595,669	330,000	925,669
2013 – 2017	3,191,862	1,216,757	4,408,619
2018 – 2022	<u>3,810,000</u>	<u>507,334</u>	<u>4,317,334</u>
	<u>\$ 9,660,450</u>	<u>\$ 3,515,139</u>	<u>\$ 12,175,589</u>

NOTE 6. INTERFUND BALANCES AND TRANSFERS

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All balances at June 30, 2007 are expected to be repaid within the next fiscal year.

A schedule of interfund balances follows:

<u>Fund</u>	<u>Due From</u>	<u>Fund</u>	<u>Due to</u>
Debt	\$ 72,977	General	\$ 518
	<u> </u>	Debt	<u>72,459</u>
Totals	<u>\$ 72,977</u>		<u>\$ 72,977</u>

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 6. INTERFUND BALANCES AND TRANSFERS (Continued)

A schedule of interfund transfers follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Capital projects	\$ 473,053	General	\$ 836,822
Nonmajor	<u>363,769</u>		<u> </u>
Totals	<u>\$ 836,822</u>		<u>\$ 836,822</u>

NOTE 7. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN

Plan Description The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine-member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental, and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2007 were 16.34% of payroll through September 30, 2006, and 17.72% effective October 1, 2006. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to the MPSERS for the years ended June 30, 2007, 2006, and 2005 were \$1,190,076, \$1,323,450, and \$1,205,799, , respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits Under the MPSERS Act, all retirees have the option of continuing health, dental, and vision coverage.

NOTE 8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan, for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. The premiums are based on the ultimate cost of the experience to date of the participating members of the risk pool. The District cannot estimate losses from reported and unreported claims at June 30, 2007. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The likelihood of additional District liability is minimal.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2007 or any of the prior three years.

NOTE 9. SHORT-TERM DEBT - STATE AID NOTES

State school aid anticipation notes are issued under the provisions of Section 1225 of Act 451, Public Acts of Michigan, and Act 34 of Michigan for the purpose of providing money for school operations. The District pledged its State aid as collateral. In the event of unavailability or insufficiency of State school aid, the note is payable from taxes levied by the District. The District was obligated by the State School aid anticipation note for the amount of \$950,000 with an interest rate of 3.68% and maturity date of August 2007. The District did not borrow for the current year.

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 9. SHORT-TERM DEBT - STATE AID NOTES (Continued)

The District did not refinance its State School aid anticipation note in the 2007-08 fiscal year.

Short-term debt activity for the fiscal year ended June 30, 2007 is as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
State aid anticipation Note	<u>\$ -</u>	<u>\$ 950,000</u>	<u>\$ -</u>	<u>\$ 950,000</u>

NOTE 10. OPERATING LEASES

The District is a lessee in an operating lease with two lessors. The District leases property from David Shepard for \$125 per month. Either party may withdraw from the agreement 30 days prior to the expiration date.

The District is a lessee in noncancelable operating leases with the following lessor:

MT Business Technologies, Inc. for 11 copiers and 2 color printers for \$4,321.58 per month for 60 months beginning April 2006. The District is also obligated by a maintenance agreement for five years with a \$45 minimum monthly charge.

The rental costs for the years ended June 30, 2007 and 2006 were \$58,920 and \$83,181, respectively.

NOTE 11. NET ASSETS RESTRICTED BY ENABLING LEGISLATION

Net Assets

The government-wide statement of net assets reports \$984,076 of restricted net assets at June 30, 2007, all of which is restricted by enabling legislation.

NOTE 12. CONSTRUCTION COMMITMENTS

The District has construction commitments of \$407,605 at June 30, 2007.

NOTE 13. CONTINGENCIES

There is pending litigation against the District at June 30, 2007. An estimate for loss is not measurable at this time. Management feels that the insurance coverage is adequate to cover any loss.

**INDEPENDENT AUDITORS' REPORT ON REQUIRED
SUPPLEMENTARY INFORMATION**

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
November 2, 2007

ONSTED COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Local sources	\$ 1,895,508	\$ 2,127,714	\$ 2,127,414	\$ (300)
State sources	11,518,051	11,665,916	11,665,902	(14)
Federal sources	203,380	232,032	232,560	528
Intermediate sources	<u>225,980</u>	<u>297,788</u>	<u>269,185</u>	<u>(28,603)</u>
TOTAL REVENUES	<u>13,842,919</u>	<u>14,323,450</u>	<u>14,295,061</u>	<u>(28,389)</u>
EXPENDITURES:				
Instruction:				
Basic programs	7,409,875	7,405,794	7,365,945	39,849
Added needs	<u>1,264,232</u>	<u>1,421,826</u>	<u>1,429,471</u>	<u>(7,645)</u>
TOTAL INSTRUCTION	<u>8,674,107</u>	<u>8,827,620</u>	<u>8,795,416</u>	<u>32,204</u>
Support services:				
Pupil	582,031	589,898	582,457	7,441
Instructional staff	428,383	397,266	396,041	1,225
General administration	495,663	428,219	418,714	9,505
School administration	801,270	836,762	828,067	8,695
Business	212,335	236,804	236,571	233
Operation and maintenance	1,333,900	1,299,125	1,267,827	31,298
Transportation	533,997	532,842	514,652	18,190
Central	<u>126,825</u>	<u>132,095</u>	<u>129,750</u>	<u>2,345</u>
TOTAL SUPPORT SERVICES	<u>4,514,404</u>	<u>4,453,011</u>	<u>4,374,079</u>	<u>78,932</u>
Community service activities	<u>10,000</u>	<u>11,196</u>	<u>11,189</u>	<u>7</u>
TOTAL EXPENDITURES	<u>13,198,511</u>	<u>13,291,827</u>	<u>13,180,684</u>	<u>111,143</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	644,408	1,031,623	1,114,377	82,754
OTHER FINANCING SOURCES (USES):				
Sale of school property		7,000	7,849	849
Transfers out	<u>(444,408)</u>	<u>(838,623)</u>	<u>(836,822)</u>	<u>1,801</u>
TOTAL OTHER FINANCING SOURCES (USES)	(444,408)	(831,623)	(828,973)	2,650
CHANGE IN FUND BALANCE	200,000	200,000	285,404	85,404
FUND BALANCES:				
Beginning of year			<u>2,220,855</u>	
End of year			<u>\$ 2,506,259</u>	

ONSTED COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS FUND

For the Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Local sources	\$ 500	\$ 11,600	\$ 11,589	\$ (11)
EXPENDITURES:				
Other	28,000	45,480	45,480	
Capital outlay	<u>82,738</u>	<u>62,800</u>	<u>62,800</u>	
TOTAL EXPENDITURES	<u>110,738</u>	<u>108,280</u>	<u>108,280</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENSITURES	<u>(110,238)</u>	<u>(96,650)</u>	<u>(96,691)</u>	<u>(11)</u>
OTHER FINANCING SOURES (USES):				
Proceeds from bond issuance			200,000	200,000
Transfers in	<u>110,238</u>	<u>473,053</u>	<u>473,053</u>	
TOTAL OTHER FINANCING SOURCES (USES)	110,238	473,053	673,053	200,000
CHANGE IN FUND BALANCE	-	376,373	576,362	199,989
FUND BALANCES:				
Beginning of year			<u>79,211</u>	
End of year			<u>\$ 655,573</u>	

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Onsted Community Schools taken as a whole. The accompanying information identified in the table of contents as combining financial statements and other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
November 2, 2007

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Onsted Community Schools
Onsted, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Onsted Community Schools, as of and for the year ended June 30, 2007, which collectively comprise Onsted Community Schools' basic financial statements and have issued our report thereon dated November 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Onsted Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the District's financial statements that

To the Board of Education
Onsted Community Schools
Onsted, Michigan

is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We considered the deficiencies described as 2007-1 through 2007-3 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above as 2007-1 through 2007-3, are not material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Onsted Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Onsted Community Schools' in a separate letter dated November 2, 2007.

Onsted Community Schools' response to the findings identified in our audit are described in the accompanying schedule of findings and response. We did not audit Onsted Community Schools' response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, Departments of the State of Michigan, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
November 2, 2007

ONSTED COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2007

Finding 2007-1

Finding considered a significant deficiency

Criteria:

Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Condition

Currently, the District's staff prepares the interim financial reports and assists the external auditor in the preparation of the annual audit report.

Cause

The staff of the District does understand all information included in the annual financial statements; however, assistance of the external auditor was utilized in preparing the footnotes to the financial statements.

Effect

Utilization of the external auditor in preparing the footnotes to the financial statements assists management with the external financial reporting responsibility, to ensure their financial statements are accurate.

Recommendation

At this time, we recommend no changes to this situation and communicate this as required by professional standards. The current process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

ONSTED COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2007

Finding 2007-2

Finding considered a significant deficiency

Criteria:

Effective for the year ended March 31, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing to management and those charged with governance, significant deficiencies and material weaknesses identified in an audit.

Condition

Currently there are no segregation of conflicting duties of initiating transactions, and the recording of those transactions

Cause

The District has a limited number of personnel.

Effect

Segregation of duties would provide another measure of internal control to provide the ability of the District to determine, in a reasonable amount of time, whether all transactions initiated are recorded and reported timely and accurately.

Recommendation

The District should consider adding additional personnel in order to segregate duties.

Client Response

We are aware of this deficiency and are currently researching the use of consolidated business office services.

ONSTED COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2007

Finding 2007-3

Finding considered a significant deficiency

Criteria:

Effective for the year ended March 31, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing to management and those charged with governance, significant deficiencies and material weaknesses identified in an audit.

Condition

The District is required to adopt a budget for the General Fund. The budget should be adopted at a minimum level of appropriation. This is usually at the major revenue category and expenditure functional level. Each of the expenditure function levels should not be overspent.

Cause

The administration of the District understands the requirement, and annually prepares the budget which is approved by the Board of Education. In June of the fiscal year, administration prepares amended budgets to be approved by the Board of Education. The amended budget discloses estimated expenditures at the functional level.

Effect

The budget must be amended before year end, the timing of which resulted in one functional expenditure being over expended at year end. On the Required Supplementary Information Budgetary Comparison Schedule, one expenditure function was overspent. However, total expenditures for the General Fund were underspent.

Recommendation

That the administration determine prior to the amendment of the appropriations, that the information is complete including adjusting entries to record the year end accruals.

Client Response

At the time of amendments, the appropriations and expenditures are adjusted as accurately as possible. The District knows of no way to assure that the expenditures are exact when the final revenues and expenses are not known until later. The District does, however, assure that every attempt to be as accurate as possible will be taken.

ONSTED COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES

June 30, 2007
With Comparative Totals for June 30, 2006

<u>ASSETS</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Totals Nonmajor Governmental Funds</u>	
			<u>2007</u>	<u>2006</u>
ASSETS:				
Cash and cash equivalents	\$ 37,091	\$ 324,417	\$ 361,508	\$ 362,105
Investments	33,647		33,647	32,581
Due from other governmental units	4,970	3,568	8,538	5,026
Due from other funds		72,977	72,977	15,100
Inventory	<u>14,695</u>	<u></u>	<u>14,695</u>	<u>16,354</u>
TOTAL ASSETS	<u>\$ 90,403</u>	<u>\$ 400,962</u>	<u>\$ 491,365</u>	<u>\$ 431,166</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES:				
Accounts payable and and accrued expenditures	\$ 1,541	\$	\$ 1,541	\$ 4,003
Due to other funds		72,459	72,459	114
Bank overdraft				12,619
Unearned revenue	<u>29,035</u>	<u></u>	<u>29,035</u>	<u>22,813</u>
TOTAL LIABILITIES	<u>30,576</u>	<u>72,459</u>	<u>103,035</u>	<u>39,549</u>
FUND BALANCES:				
Reserved for:				
Inventory	14,695		14,695	16,354
School lunch program	38,347		38,347	32,029
Community services	4,990		4,990	7,556
School store	1,607		1,607	1,550
Debt service		328,503	328,503	333,940
Unreserved, reported in:				
Special Revenue Funds	<u>188</u>	<u></u>	<u>188</u>	<u>188</u>
TOTAL FUND BALANCES	<u>59,827</u>	<u>328,503</u>	<u>388,330</u>	<u>391,617</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 90,403</u>	<u>\$ 400,962</u>	<u>\$ 491,365</u>	<u>\$ 431,166</u>

ONSTED COMMUNITY SCHOOLS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUND TYPES

For the Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Totals Nonmajor Governmental Funds 2007</u>	<u>2006</u>
REVENUES:				
Local sources:				
Property taxes	\$	\$ 830,967	\$ 830,967	\$ 923,669
Investment earnings	541	9,739	10,280	1,243
Sales and admissions	549,181		549,181	548,649
Other	<u>114,894</u>		<u>114,894</u>	<u>109,586</u>
TOTAL LOCAL SOURCES	664,616	840,706	1,505,322	1,583,147
State sources	26,241		26,241	34,559
Federal sources	<u>184,615</u>		<u>184,615</u>	<u>168,248</u>
TOTAL REVENUES	<u>875,472</u>	<u>840,706</u>	<u>1,716,178</u>	<u>1,785,954</u>
EXPENDITURES:				
Current:				
Food service activities	649,523		649,523	629,799
Community service activities	71,469		71,469	77,943
Bookstore activities	6,301		6,301	15,229
Athletic activities	509,798		509,798	491,766
Capital outlay				28,052
Debt Service:				
Interest		415,278	415,278	436,636
Other		<u>865</u>	<u>865</u>	<u>12,370</u>
TOTAL EXPENDITURES	<u>1,237,091</u>	<u>416,143</u>	<u>1,653,234</u>	<u>1,691,795</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(361,619)</u>	<u>424,563</u>	<u>62,944</u>	<u>94,159</u>
OTHER FINANCING SOURCES (USES):				
Redemption of principal		(430,000)	(430,000)	(414,955)
Prior year income				
Transfers in	<u>363,769</u>		<u>363,769</u>	<u>359,855</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>363,769</u>	<u>(430,000)</u>	<u>(66,231)</u>	<u>(55,100)</u>
CHANGE IN FUND BALANCES	2,150	(5,437)	(3,287)	39,059
FUND BALANCES:				
Beginning of year	<u>57,677</u>	<u>333,940</u>	<u>391,617</u>	<u>352,558</u>
End of year	<u>\$ 59,827</u>	<u>\$ 328,503</u>	<u>\$ 388,330</u>	<u>\$ 391,617</u>

ONSTED COMMUNITY SCHOOLS

COMBINING BALANCE SHEET

SPECIAL REVENUE FUNDS

June 30, 2007

With Comparative Totals for the Year ended June 30, 2006

					Totals	
					Special Revenue Funds	
<u>ASSETS</u>	<u>School Lunch</u>	<u>Community Service</u>	<u>Bookstore</u>	<u>Athletics</u>	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 4,862	\$ 1,399	\$ 1,607	\$ 29,223	\$ 37,091	\$ 28,051
Investments	30,056	3,591			33,647	32,581
Due from other governmental units	4,970				4,970	5,026
Due from other funds						15,100
Inventory	<u>8,464</u>	<u> </u>	<u>6,231</u>	<u> </u>	<u>14,695</u>	<u>16,354</u>
Total assets	<u>\$ 48,352</u>	<u>\$ 4,990</u>	<u>\$ 7,838</u>	<u>\$ 29,223</u>	<u>\$ 90,403</u>	<u>\$ 97,112</u>
<u>LIABILITIES AND FUND BALANCES</u>						
LIABILITIES:						
Accounts payable and accrued expenditures	\$ 1,541	\$	\$	\$	\$ 1,541	\$ 4,003
Bank overdraft						12,619
Unearned revenue	<u> </u>	<u> </u>	<u> </u>	<u>29,035</u>	<u>29,035</u>	<u>22,813</u>
Total liabilities	<u>1,541</u>	<u>-</u>	<u>-</u>	<u>29,035</u>	<u>30,576</u>	<u>39,435</u>
FUND BALANCES:						
Reserved for:						
Inventory	8,464		6,231		14,695	16,354
School lunch program	38,347				38,347	32,029
Community services		4,990			4,990	7,556
School store			1,607		1,607	1,550
Unreserved, reported in:						
Special Revenue Funds	<u> </u>	<u> </u>	<u> </u>	<u>188</u>	<u>188</u>	<u>188</u>
Total fund balances	<u>46,811</u>	<u>4,990</u>	<u>7,838</u>	<u>188</u>	<u>59,827</u>	<u>57,677</u>
Total liabilities and fund balances	<u>\$ 48,352</u>	<u>\$ 4,990</u>	<u>\$ 7,838</u>	<u>\$ 29,223</u>	<u>\$ 90,403</u>	<u>\$ 97,112</u>

ONSTED COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

	<u>School Lunch</u>	<u>Community Service</u>	<u>Bookstore</u>	<u>Athletics</u>	<u>Totals Special Revenue Funds 2007</u>	<u>2006</u>
REVENUES:						
Local sources:						
Sales, admissions and fees	\$ 426,219	\$ 48,172	\$ 3,876	\$ 70,914	\$ 549,181	\$ 548,649
Investment earnings				541	541	348
Other	<u>17,019</u>	<u>2,731</u>	<u> </u>	<u>95,144</u>	<u>114,894</u>	<u>102,104</u>
Total local sources	443,238	50,903	3,876	166,599	664,616	651,101
State sources	26,241				26,241	27,370
Federal sources	<u>184,615</u>	<u> </u>	<u> </u>	<u> </u>	<u>184,615</u>	<u>168,248</u>
TOTAL REVENUES	<u>654,094</u>	<u>50,903</u>	<u>3,876</u>	<u>166,599</u>	<u>875,472</u>	<u>846,719</u>
EXPENDITURES:						
Cost of goods sold – net	350,735				350,735	336,060
Salaries and wages	204,404	48,553		274,778	527,735	532,324
Employee benefits	70,164	11,774		68,421	150,359	143,693
Contracted services	9,093	1,050		20,899	31,042	53,739
Travel, workshops and conferences	221			1,103	1,324	1,664
Materials and supplies	14,900	10,092	6,301	135,211	166,504	137,428
Capital outlay						28,052
Miscellaneous	<u>6</u>	<u> </u>	<u> </u>	<u>9,386</u>	<u>9,392</u>	<u>9,829</u>
TOTAL EXPENDITURES	<u>649,523</u>	<u>71,469</u>	<u>6,301</u>	<u>509,798</u>	<u>1,237,091</u>	<u>1,242,789</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>4,571</u>	<u>(20,566)</u>	<u>(2,425)</u>	<u>(343,199)</u>	<u>(361,619)</u>	<u>(396,070)</u>
OTHER FINANCING SOURCES:						
Transfers in	<u>2,570</u>	<u>18,000</u>	<u> </u>	<u>343,199</u>	<u>363,769</u>	<u>359,855</u>
TOTAL OTHER FINANCING SOURCES	<u>2,570</u>	<u>18,000</u>	<u>-</u>	<u>343,199</u>	<u>363,769</u>	<u>359,855</u>
CHANGE IN FUND BALANCES	7,141	(2,566)	(2,425)	-	2,150	(36,215)
FUND BALANCES:						
Beginning of year	<u>39,670</u>	<u>7,556</u>	<u>10,263</u>	<u>188</u>	<u>57,677</u>	<u>93,892</u>
End of year	<u>\$ 46,811</u>	<u>\$ 4,990</u>	<u>\$ 7,838</u>	<u>\$ 188</u>	<u>\$ 59,827</u>	<u>\$ 57,677</u>

ONSTED COMMUNITY SCHOOLS

COMBINING BALANCE SHEET

DEBT SERVICE FUNDS

June 30, 2007

With Comparative Totals for June 30, 2006

<u>ASSETS</u>	<u>Durant Debt Fund</u>	<u>2004 Refunding Debt Retirement</u>	<u>1997 General Debt Retirement</u>	<u>Totals Debt Service Funds 2007</u>	<u>2006</u>
Cash and cash equivalents	\$	\$ 165,877	\$ 158,540	\$ 324,417	\$ 334,054
Taxes receivable					
Due from other governmental units		1,125	2,443	3,568	
Due from other funds		<u>72,710</u>	<u>267</u>	<u>72,977</u>	
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 239,712</u>	<u>\$ 161,250</u>	<u>\$ 400,962</u>	<u>\$ 334,054</u>
 <u>LIABILITIES AND FUND BALANCES</u>					
LIABILITIES:					
Deferred taxes	\$	\$	\$	\$	\$ 114
Due to other funds			<u>72,459</u>	<u>72,459</u>	
TOTAL LIABILITIES	-	-	72,459	72,459	114
FUND BALANCES:					
Reserved for:					
Debt Service		<u>239,712</u>	<u>88,791</u>	<u>328,503</u>	<u>333,940</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 239,712</u>	<u>\$ 161,250</u>	<u>\$ 400,962</u>	<u>\$ 334,054</u>

ONSTED COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

DEBT SERVICE FUNDS

For the Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

	<u>Durant Debt Fund</u>	<u>2004 Refunding Debt Retirement</u>	<u>1997 General Debt Retirement</u>	<u>Totals Debt Service Funds 2007</u>	<u>2006</u>
REVENUES:					
Local sources:					
Property taxes	\$	\$ 403,042	\$ 427,925	\$830,967	\$ 923,669
Investment earnings		4,169	5,570	9,739	895
Other					7,482
State sources	_____	<u>407,211</u>	<u>433,495</u>	<u>840,706</u>	<u>7,189</u>
TOTAL REVENUES	_____	<u>407,211</u>	<u>433,495</u>	<u>840,706</u>	<u>939,235</u>
EXPENDITURES:					
Debt Service:					
Interest		361,778	53,500	415,278	436,636
Other	_____	<u>225</u>	<u>640</u>	<u>865</u>	<u>12,370</u>
TOTAL EXPENDITURES	_____	<u>362,003</u>	<u>54,140</u>	<u>416,143</u>	<u>449,006</u>
EXCESS OF REVENUES OVER EXPENDITURES	_____	<u>45,208</u>	<u>379,355</u>	<u>424,563</u>	<u>490,229</u>
OTHER FINANCING USES:					
Redemption of principal	_____	<u>(55,000)</u>	<u>(375,000)</u>	<u>(430,000)</u>	<u>(414,955)</u>
TOTAL OTHER FINANCING USES	_____	<u>(55,000)</u>	<u>(375,000)</u>	<u>(430,000)</u>	<u>(414,955)</u>
CHANGE IN FUND BALANCES	-	(9,792)	4,355	(5,437)	75,274
FUND BALANCES:					
Beginning of year	_____ -	<u>249,504</u>	<u>84,436</u>	<u>333,940</u>	<u>258,666</u>
End of year	<u>\$ -</u>	<u>\$ 239,712</u>	<u>\$ 88,791</u>	<u>\$ 328,503</u>	<u>\$ 333,940</u>

ONSTED COMMUNITY SCHOOLS
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES

AGENCY FUND

For the Year Ended June 30, 2007

<u>ASSETS</u>	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2007</u>
Cash and cash equivalents	\$ <u>93,299</u>	\$ <u>216,508</u>	\$ <u>244,448</u>	\$ <u>65,359</u>
TOTAL ASSETS	\$ <u>93,299</u>	\$ <u>216,508</u>	\$ <u>244,448</u>	\$ <u>65,359</u>
<u>LIABILITIES</u>				
Due to student groups	\$ <u>93,299</u>	\$ <u>216,508</u>	\$ <u>244,448</u>	\$ <u>65,359</u>
TOTAL LIABILITIES	\$ <u>93,299</u>	\$ <u>216,508</u>	\$ <u>244,448</u>	\$ <u>65,359</u>